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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

6 November 1984

MEMORANDUM FOR: Director of Central Intelligence

FROM: Herbert E. Meyer, Vice Chairman
National Intelligence Council

SUBJECT: Soviet Setbacks/US Opportunity

1. For quite some time now--roughly seven centuries--a key strategic objective of Russian and then Soviet policy has been to keep China weak. Two current developments are combining to throw Moscow for a loop: China's economic reform program and Indira Gandhi's assassination. In this combination of Soviet setbacks lies a US opportunity.

2. China's economic reform program has already begun to succeed. The agricultural reforms--termed "responsibility systems"--since 1979 have boosted food production by 35 percent. Grain output has set new records in each of the last four years, even though the amount of land used to grow grain has been reduced to make room for other crops such as cotton and sugar. China's dependence on grain imports has been reduced and China's farmers are enjoying greater prosperity than ever before. Now China plans to carry these reforms to the urban industrial sector. The current plenum of the Central Committee has acted to remove state planning and controls on several dozen industrial products. The regime wants industry to become profitable and competitive as it shifts to market forces as a basis for operation.

3. Should the Chinese reform program continue to succeed, China's position will strengthen with respect to the other two legs of the strategic triangle. That is, improvements in the Chinese economy brought about by the current reforms will make China stronger, more independent, and more capable of exerting its national will. The Chinese leadership will grow increasingly confident of China's ability--and right--to play a central role in the international community. Accordingly, China will likely demonstrate an increasing independence and assertiveness in articulating and pursuing its interests. Moreover, economic success will enhance China's ability to appeal to the Third World as an economic model and political leader, thereby transcending its now largely rhetorical role. In coming years China likely will become involved in more complex economic dealings with the West.

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Whereas the Chinese are now viewed primarily as supplicants for resources and technology from Japan, the United States and other Western countries--and will remain supplicants for a long time to come--Chinese economic growth and vitality will enable the Chinese to genuinely participate in some markets. This is already true in the textile industry. China's military power will also expand as its economy grows and as more resources become available for the improvement of weapons systems and the professionalization of the armed forces. The heavy military focus in China's 35th National Day celebrations on October 1 reflects Beijing's desire to enhance its military capabilities, and thus its capacity to use military power as an instrument of Chinese foreign policy.

4. China's gains will be the Soviet Union's losses. A stronger China will complicate Soviet efforts to achieve a more normal relationship with China, since Beijing will be increasingly capable of insisting on basic Soviet concessions. China's improved military posture will complicate Soviet military planning, even though Moscow will continue to have the upper hand in the event of conflict. China's greater assertiveness on issues such as the Sino-Soviet border problem, Afghanistan, and Kampuchea will also make Soviet relations with Asia more difficult.

5. Success in the Chinese economic reforms also will discredit the Soviet economic model by chopping up the roots of the centralized command system that Moscow espouses. Already Eastern European planners, and even some Soviet economists, are raising questions about the Chinese reforms and their relevance for their own economies. Further Chinese success will stimulate greater interest in what the Chinese are doing and contempt for the moribund Soviet approach.

6. This Chinese challenge to Soviet-style economic planning easily could become by a challenge to Soviet leadership in the communist world itself. At a time when Soviet leaders are paralyzed by even the most modest economic reform proposals, Chinese leaders have enacted a set of reforms so far-reaching as to include a primitive but genuine stock market in Shanghai--at which in July the Foshan International Trust and Investment Corp. raised from local investors more than \$8 million (twice its target) in the first public stock offering since the 1949 revolution. Unlike the Sino-Soviet split that occurred in the early 1960's, which triggered an ideological fracturing of the Communist world, prospects now are for a second Sino-Soviet split on the non-ideological issue of performance. The Soviet Union may well find its appeal to other socialist countries blunted, and perhaps even undermined, by the sheer force of China's accomplishments.

7. The Soviets have labored mightily in recent years to develop India as a counterweight to China's regional power and influence. Toward this end, Indira Gandhi's personal role was pivotal. No other leading Indian politician was as well disposed toward the Soviet Union, and no other Third World country has extracted from Moscow the kinds of benefits that India received, such as licensed production rights for advanced Soviet military equipment. [redacted] Moscow recognized Gandhi's personal role in the relationship, and had been

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concerned about her declining personal support. Indeed, the Soviets had been timing high-level visits and agreements to strengthen her position before the elections scheduled for this coming January.

8. The accession to power of Rajiv Gandhi--whom the Soviets have been cultivating since he became heir-apparent in 1981--in no way compensates for the blow the Soviets have suffered through the death of Indira Gandhi. It was her ability to rule the country--to contain its centrifugal forces and to drive India toward an external, regional role--that made her so uniquely valuable to the Soviets. India now seems doomed to a period of internal stress, as the Sikh separatist movement gathers strength in the Punjab and as Rajiv struggles to secure his power while others struggle to take power from him. All this will work to limit India, at least for a while, as an external force. Thus at precisely that moment when the Soviet Union's need for a counterweight to China is greatest, India's value as a counterweight to China has begun to diminish.

9. It is this combination of Soviet setbacks that offers the US an opportunity. More precisely, we could frustrate one of the Soviet Union's key strategic objective--keeping China weak--by pursuing two strategic objectives of our own:

- assuring that China's economic reform program succeeds and is perceived as being successful.
- • assuring that as today's fluid political environment in India solidifies, it does so in a way that does not leave India as a Soviet counterweight to China.

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